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UNITED STATES GENERAL ACCOUNTING OFFICE
WASHINGTON, D.C. 20548

FOR RELEASE ON DELIVERY
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THURSDAY, NOVEMBER 8, 1973

STATEMENT OF VICTOR L. LOWE
DIRECTOR, GENERAL GOVERNMENT DIVISION
BEFORE THE
SUBCOMMITTEE ON WATER RESOURCES OF THE
COMMITTEE ON PUBLIC WORKS
HOUSE OF REPRESENTATIVES
ON
HOUSE BILL 7690, A BILL TO PROVIDE FOR
DISASTER ASSISTANCE AND FOR OTHER PURPOSES

MR. CHAIRMAN AND MEMBERS OF THE SUBCOMMITTEE:

WE ARE PLEASED TO APPEAR BEFORE YOUR SUBCOMMITTEE DURING ITS CONSIDERATION OF COMPREHENSIVE DISASTER ASSISTANCE LEGISLATION. AT THE REQUEST OF THE SUBCOMMITTEE, WE WILL SUMMARIZE TWO REPORTS ISSUED THREE DAYS AGO BY OUR OFFICE COVERING OUR REVIEWS OF FEDERAL DISASTER ASSISTANCE PROGRAMS. ALTHOUGH OUR REPORTS DO NOT DEAL WITH THE SPECIFIC BILL UNDER CONSIDERATION BY THE SUBCOMMITTEE, WE BELIEVE THAT THE PROBLEMS IN PAST DISASTER ASSISTANCE EFFORTS, AS SPELLED OUT IN OUR REPORTS, WILL BE OF SOME ASSISTANCE TO THE SUBCOMMITTEE IN ITS CONSIDERATION OF THE BILL.

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BY WAY OF BACKGROUND, I WOULD LIKE TO MENTION THAT OUR TWO REPORTS ARE THE CULMINATION OF REVIEW EFFORTS UNDERTAKEN BY OUR OFFICE FOLLOWING A SERIES OF DISASTERS. AMONG THESE WERE TROPICAL STORM AGNES, THE RAPID CITY FLOOD, AND THE FEBRUARY 1971 EARTHQUAKE IN CALIFORNIA. THESE REPORTS POINT OUT A VARIETY OF PROBLEMS THAT WE OBSERVED; HOWEVER, TWO COMMON THREADS SEEM TO RUN THROUGH MOST OF THEM: DISASTER BENEFITS HAVE NOT BEEN MADE AVAILABLE ON A UNIFORM BASIS TO DISASTER VICTIMS AND BETTER COORDINATION OF THE VARIOUS FEDERAL PROGRAMS IS NEEDED. ALTHOUGH WE COULD NOT MEASURE THE IMPACT THAT DIFFERING TREATMENT AND COORDINATION PROBLEMS HAD ON THE MORALE OF DISASTER VICTIMS OR ON THEIR CONFIDENCE IN FEDERAL DISASTER ASSISTANCE PROGRAMS, WE DO KNOW THAT THERE IS AN ADVERSE IMPACT.

WITH THE CHAIRMAN'S PERMISSION, I WOULD LIKE TO FURNISH OUR TWO¹ REPORTS FOR THE RECORD AND HIGHLIGHT THE PRINCIPAL POINTS COVERED IN THEM.

WE REPORTED THAT MORE UNIFORMITY MAY BE NEEDED IN FEDERAL DISASTER ASSISTANCE PROGRAMS.

VICTIMS SUSTAINING SIMILAR DAMAGES FROM THE SAME DISASTER RECEIVED DIFFERENT AMOUNTS OF ASSISTANCE

¹ INFORMATION ON DISASTER RELIEF PROGRAMS (B-178415, Nov. 5, 1973), ADMINISTRATIVE PROBLEMS EXPERIENCED IN PROVIDING FEDERAL ASSISTANCE TO DISASTER VICTIMS (B-167790)

DEPENDING ON WHETHER THEY APPLIED TO THE SMALL BUSINESS ADMINISTRATION (SBA) OR THE FARMERS HOME ADMINISTRATION (FHA) BECAUSE OF LEGISLATIVE DIFFERENCES BETWEEN THE SBA AND FHA DISASTER LOAN PROGRAMS. MOST OF THE DIFFERENCES NOTED DURING OUR REVIEW WERE DUE TO ENACTMENT OF LEGISLATION WHICH CHANGED INTEREST RATES, AMOUNTS FORGIVEN, AND ELIGIBILITY CRITERIA.

UNDER THE CURRENT LAWS, FHA IS AUTHORIZED TO MAKE LOANS TO ELIGIBLE DISASTER VICTIMS -- FARMERS, RANCHERS, AND OYSTER PLANTERS -- ONLY IF THE VICTIMS CANNOT OBTAIN SUFFICIENT CREDIT AT REASONABLE RATES ELSEWHERE. SBA, HOWEVER, IS AUTHORIZED TO MAKE LOANS TO ELIGIBLE VICTIMS -- HOMEOWNERS, PROPERTY OWNERS, AND BUSINESS CONCERNS -- WITHOUT REGARD TO THE AVAILABILITY OF CREDIT ELSEWHERE.

DISASTER VICTIMS WERE ALSO TREATED DIFFERENTLY BY SBA AND FHA BECAUSE THE AGENCIES INTERPRETED RETROACTIVE PROVISIONS OF THE DISASTER RELIEF ACT OF 1970 DIFFERENTLY. LOANS WITH DIFFERENT INTEREST RATES AND FORGIVENESS PROVISIONS WERE MADE TO VICTIMS OF DISASTERS OCCURRING BETWEEN APRIL 1 AND DECEMBER 31, 1970, THE PERIOD COVERED BY THE RETROACTIVE PROVISIONS, DEPENDING ON WHETHER SBA OR FHA MADE THE LOAN.

NEITHER SBA'S NOR FHA'S INTERPRETATION WAS IMPROPER. WE BELIEVE, HOWEVER, FOR EQUITABLE TREATMENT OF DISASTER VICTIMS BOTH AGENCIES SHOULD HAVE BEEN CONSISTENT IN THEIR INTERPRETATIONS.

THE AGENCIES IN 1973 AGAIN DIFFERED IN THE ASSISTANCE PROVIDED TO CERTAIN DISASTER VICTIMS. FOLLOWING TROPICAL STORM AGNES IN JUNE 1972, LEGISLATION WAS ENACTED WHICH PROVIDED FOR FORGIVENESS OF THE FIRST \$5,000 OF SBA AND FHA DISASTER LOANS AND A 1-PERCENT INTEREST RATE. BECAUSE OF THE HIGH COST OF FORGIVENESS AND INTEREST RATE SUBSIDY, THE SECRETARY OF AGRICULTURE, ON DECEMBER 27, 1972, ADVISED FHA THAT NO MORE LOAN APPLICATIONS WOULD BE ACCEPTED FOR ANY AREAS HE HAD PREVIOUSLY DECLARED ELIGIBLE FOR DISASTER ASSISTANCE. THIS PREVENTED THOUSANDS OF VICTIMS FROM RECEIVING ANY FINANCIAL ASSISTANCE EVEN THOUGH FHA HAD EXPRESSLY INSTRUCTED MANY OF THEM BEFORE DECEMBER 27 TO APPLY FOR ASSISTANCE AFTER THAT DATE.

FROM DECEMBER 27, 1972, TO APRIL 20, 1973, THE SECRETARY OF AGRICULTURE DID NOT DECLARE ANY AREAS ELIGIBLE FOR DISASTER ASSISTANCE, ALTHOUGH SEVERAL HUNDRED COUNTIES HAD REQUESTS FOR SUCH DECLARATIONS PENDING AT FHA. ALSO, FHA DID NOT MAKE ANY LOANS TO VICTIMS IN AREAS THE PRESIDENT DECLARED ELIGIBLE FOR DISASTER ASSISTANCE DURING THIS PERIOD. SBA, HOWEVER, WAS MAKING LOANS FOR 1-PERCENT INTEREST AND \$5,000 FORGIVENESS TO ELIGIBLE VICTIMS.

BECAUSE OF CONGRESSIONAL CONCERN OVER THE INEQUITY OF THIS PRACTICE, SBA, ON APRIL 10, 1973, AGREED TO ACCEPT LOAN APPLICATIONS FROM FARMERS AND OTHER RESIDENTS OF RURAL AREAS FOR DAMAGES SUSTAINED IN AREAS THE PRESIDENT DECLARED ELIGIBLE AFTER DECEMBER 27, 1972. SBA, HOWEVER, COULD NOT PROVIDE ANY ASSISTANCE FOR DAMAGES TO FARM BUILDINGS, RELATED STRUCTURES AND EQUIPMENT, OR FOR CROP LOSSES SUSTAINED BY FARMERS IN SUCH DISASTERS.

BECAUSE OF FHA'S CURTAILMENT OF DISASTER LOANS, LEGISLATION WAS ENACTED ON APRIL 20, 1973, ELIMINATING FORGIVENESS AND INCREASING THE INTEREST RATE ON SBA AND FHA LOANS TO 5 PERCENT. AFTER ENACTMENT ABOUT 400 COUNTIES WHICH HAD SUSTAINED DISASTER DAMAGES BUT HAD NOT BEEN DESIGNATED FOR DISASTER ASSISTANCE BECAUSE OF THE FHA CURTAILMENT, WERE DECLARED ELIGIBLE BY THE SECRETARY OF AGRICULTURE. BECAUSE THESE COUNTIES WERE NOT DECLARED ELIGIBLE UNTIL THAT TIME, MANY DISASTER VICTIMS RECEIVED FHA LOANS AT 5-PERCENT INTEREST AND NO FORGIVENESS WHEN, UNDER THE LEGISLATION IN EFFECT AT THE TIME OF THE DISASTERS, THEY COULD HAVE RECEIVED LOANS WITH \$5,000 FORGIVENESS AND 1-PERCENT INTEREST.

ALSO, VICTIMS OF THE SAME DISASTER RECEIVED DIFFERENT BENEFITS DEPENDING ON WHETHER THEY WERE ELIGIBLE FOR FHA OR SBA ASSISTANCE. FOR EXAMPLE, FOR VICTIMS OF THE MISSISSIPPI AND MISSOURI RIVER FLOODS IN EARLY 1973, SBA MADE LOANS AT 1-PERCENT INTEREST AND \$5,000 FORGIVENESS WHEREAS FHA MADE LOANS AT 5-PERCENT INTEREST AND NO FORGIVENESS.

DIFFERENCES EXISTED IN THE TIMELINESS AND DEGREE OF ASSISTANCE THE FEDERAL DISASTER ASSISTANCE ADMINISTRATION (FDAA), THE FEDERAL HIGHWAY ADMINISTRATION (FHWA), AND THE DEPARTMENT OF HEALTH, EDUCATION, AND WELFARE (HEW) PROVIDED FOR REPAIRING DISASTER-DAMAGED PUBLIC FACILITIES BECAUSE THE ADMINISTRATIVE POLICIES AND PRACTICES OF THESE AGENCIES VARIED.

HEW, FHWA, AND FDAA DIFFERED IN ADHERING TO CURRENT LOCAL CODES, SPECIFICATIONS, AND STANDARDS IN REPAIRING DISASTER-DAMAGED FACILITIES.

IN PROVIDING ASSISTANCE UNDER HEW LEGISLATION TO REBUILD A HIGH SCHOOL DESTROYED BY THE 1971 CALIFORNIA EARTHQUAKE, HEW LIMITED ITS ASSISTANCE TO THE COST OF THE MINIMUM SCHOOL FACILITY NEEDED TO REPLACE THE DESTROYED SCHOOL. ALTHOUGH HEW CONSIDERED CURRENT SAFETY AND HEALTH CONSTRUCTION STANDARDS, IT DID NOT CONSIDER CURRENT SPACE STANDARDS WHICH REQUIRE MORE SQUARE FEET OF SPACE PER PUPIL THAN WAS REQUIRED WHEN THE ORIGINAL SCHOOL WAS BUILT. ACCORDING TO HOUSE REPORT 91-1524, WHICH PERTAINS TO FDAA FINANCING OF REPAIRS TO DISASTER-DAMAGED PUBLIC FACILITIES, THE FDAA CONTRIBUTION FOR RECONSTRUCTION OF A SCHOOL WOULD PAY FOR SPACE ON THE BASIS OF CURRENT STANDARDS.

REGARDING AUTHORIZATIONS FOR REPAIR OF ROADS AND BRIDGES, PENNSYLVANIA DISASTER OFFICIALS TOLD US FHWA IS MORE LIKELY TO ACCEPT CURRENT CODES AND SPECIFICATIONS THAN IS FDAA.

IN MAY 1972 THE STATE ISSUED NEW GUIDELINES TO LOCAL OFFICIALS FOR DESIGNING LOCAL ROADS AND BRIDGES. THE STANDARDS IN THE GUIDELINES WERE SIGNIFICANTLY HIGHER THAN PREVIOUS STANDARDS AND HIGHER THAN THOSE SUGGESTED BY THE AMERICAN ASSOCIATION OF STATE HIGHWAY OFFICIALS.

FDAA, IN AUTHORIZING REPAIR AND RECONSTRUCTION OF 400 BRIDGES, IMPOSED WIDTH STANDARDS WHICH, ACCORDING TO PENNSYLVANIA OFFICIALS, WERE THE SAME AS THOSE OF THE AMERICAN ASSOCIATION OF STATE HIGHWAY OFFICIALS. IN CONTRAST, FHWA, ACCORDING TO STATE OFFICIALS, AGREED TO USE STATE STANDARDS FOR THE REPAIR OF 130 BRIDGES IN THE FEDERAL-AID SYSTEM.

FDAA INFORMED US THAT IT DID NOT CONSIDER THE NEW GUIDELINES FOR LOCAL ROADS AND BRIDGES BECAUSE, ALTHOUGH ISSUED ON MAY 16, 1972, THEY WERE NOT EFFECTIVE UNTIL JULY 1, 1972, A WEEK AFTER THE TROPICAL STORM AGNES DISASTER.

FRINGE PAYROLL BENEFITS--SUCH AS SOCIAL SECURITY, RETIREMENT, AND INSURANCE--OF STATE AND LOCAL GOVERNMENT EMPLOYEES DIRECTLY INVOLVED IN DISASTER RECOVERY WORK ARE NOT REIMBURSABLE UNDER FDAA POLICY. FHWA AND HEW, HOWEVER, RECOGNIZE SUCH FRINGE BENEFITS AS ELIGIBLE COSTS.

DURING OUR REVIEWS WE ALSO NOTED A NEED FOR IMPROVED COORDINATION OF FEDERAL DISASTER ASSISTANCE PROGRAMS.

ALTHOUGH FDAA WAS RESPONSIBLE FOR COORDINATING OVERALL FEDERAL DISASTER RELIEF THERE WAS LITTLE COORDINATION OF THREE PROGRAMS WHICH PROVIDED SIGNIFICANT FUNDS FOR REPAIRS TO DAMAGED HOMES IN THE WYOMING VALLEY AREA OF PENNSYLVANIA. ABOUT 28,000 SBA LOANS TOTALING ABOUT \$252 MILLION WERE APPROVED FOR PERSONAL AND REAL PROPERTY LOSSES. ABOUT HALF SUCH LOAN AMOUNTS WERE FORGIVEN. THE VICTIMS ALSO RECEIVED \$8.6 MILLION UNDER THE MINI-REPAIR PROGRAM ADMINISTERED BY HUD AND THE CORPS OF ENGINEERS AND \$21.1 MILLION UNDER HUD'S INTERIM ASSISTANCE PROGRAM, INCLUDING \$7 MILLION IN STATE FUNDS.

THE MINI-REPAIR PROGRAM PROVIDES FOR MINIMUM BASIC REPAIRS TO MAKE A HOUSE HABITABLE AND THUS ALLEVIATE THE DEMAND FOR TEMPORARY HOUSING. MOST OF THE INTERIM ASSISTANCE PROGRAM FUNDS WERE SPENT FOR EMERGENCY REPAIRS TO HOMES. MUCH OF THE REPAIRS UNDER BOTH PROGRAMS WERE OF A PERMANENT NATURE AND SHOULD HAVE BEEN COORDINATED WITH SBA TO PREVENT DUPLICATE FUNDING.

WE ALSO NOTED THAT FAILURE TO COORDINATE MORE INTENSIVE, SHORTER DURATION EMERGENCY PROGRAMS WITH LONG-TERM RECOVERY PROGRAMS RESULTED IN DEVELOPMENT OF A CONFLICT BETWEEN SBA'S DISASTER LOANS AND HUD'S DISASTER-RELATED URBAN RENEWAL PROJECTS IN THE WYOMING VALLEY.

BECAUSE OF THE TIME NEEDED TO PLAN DISASTER-RELATED URBAN RENEWAL PROJECTS, SUCH PLANS ARE FINALIZED LONG AFTER SUBSTANTIAL AMOUNTS OF SBA FUNDS HAVE BEEN DISBURSED TO VICTIMS FOR REHABILITATING THEIR HOMES AND BUSINESSES. CONSEQUENTLY, PROPERTIES SCHEDULED FOR ACQUISITION AND DEMOLITION UNDER URBAN RENEWAL HAD ALREADY BEEN REPAIRED WHEN TENTATIVE URBAN RENEWAL PLANS FOR WYOMING VALLEY WERE PUBLICIZED. ACQUIRING REPAIRED PROPERTIES FOR SUBSEQUENT DEMOLITION WILL RESULT IN UNNECESSARY COSTS TO THE FEDERAL GOVERNMENT AND, IN PENNSYLVANIA WHERE PROPERTIES ARE TO BE ACQUIRED AT PREFLOOD VALUE, IN UNNECESSARY COSTS TO THE PROPERTY OWNERS.

OUR REPORT ALSO DISCUSSES THE PAYMENT OF PREFLOOD VALUE FOR FLOOD-DAMAGED PROPERTIES ACQUIRED FOR URBAN RENEWAL PROJECTS IN PENNSYLVANIA.

HUD'S POLICY IS TO FOLLOW STATE LAWS, SPECIFICALLY STATE EMINENT DOMAIN CODES, WHEN ESTABLISHING FAIR MARKET VALUE FOR PROPERTY TO BE ACQUIRED FOR URBAN RENEWAL PROJECTS. VICTIMS HAVE ALWAYS RECEIVED POSTFLOOD VALUE FOR PROPERTIES ACQUIRED FOR DISASTER-RELATED URBAN RENEWAL PROJECTS. PENNSYLVANIA'S EMINENT DOMAIN CODE, HOWEVER, PROVIDED FOR PAYING PREFLOOD VALUE FOR PROPERTIES ACQUIRED THROUGH CONDEMNATION FOR THE CONSTRUCTION OF ANY FLOOD CONTROL PROJECT.

FOLLOWING TROPICAL STORM AGNES IN JUNE 1972, HUD RESERVED \$400 MILLION FOR 75 PERCENT OF THE COST OF DISASTER-RELATED URBAN RENEWAL PROJECTS IN PENNSYLVANIA AND DECIDED TO ALLOW LOCAL REDEVELOPMENT AUTHORITIES, WHO ARE RESPONSIBLE FOR IMPLEMENTING THE PROJECTS, TO PAY PREFLOOD VALUE FOR FLOOD-DAMAGED PROPERTIES ACQUIRED FOR THESE PROJECTS.

PRELIMINARY PLANS FOR FOUR PROJECTS TOTALING \$122 MILLION SHOW THAT EXTENSIVELY DAMAGED AND DESTROYED HOMES AND BUILDINGS WILL BE CLEARED AND REBUILT GENERALLY ON THE SAME SITES. FOR EXAMPLE, LOCAL AUTHORITIES INTEND TO PURCHASE DESTROYED OR STRUCTURALLY UNSOUND HOMES AT PREFLOOD VALUE AND RESELL THE CLEARED SITES TO THE PREVIOUS OWNERS OR OTHERS FOR REBUILDING. MUCH OF THE PROPERTY TO BE ACQUIRED FOR URBAN RENEWAL CONSISTS OF INDIVIDUAL HOME-SITES SCATTERED THROUGHOUT THE PROJECT AREAS.

AFTER CONSULTING WITH THE CORPS OF ENGINEERS, WE CONCLUDED THAT THE FOUR PROJECTS WERE NOT FLOOD CONTROL PROJECTS WITHIN ANY REASONABLE INTERPRETATION OF THE PENNSYLVANIA STATUTES, THE COMMON SENSE DEFINITION OF THE TERM, OR THE COMMON LAW.

THE PENNSYLVANIA EMINENT DOMAIN CODE WAS AMENDED ON SEPTEMBER 27, 1973, HOWEVER, TO ELIMINATE THE FLOOD CONTROL PROJECT TEST FOR THE PAYMENT OF PREFLOOD VALUE FOR REAL PROPERTY ACQUIRED THROUGH CONDEMNATION. THIS AMENDMENT WAS MADE APPLICABLE TO PROPERTIES DAMAGED BY FLOODS OF SEPTEMBER 1971 AND JUNE 1972.

IN VIEW OF THE AMENDMENT TO THE PENNSYLVANIA LAW WE CANNOT OBJECT AS A LEGAL MATTER TO HUD ALLOWING LOCAL REDEVELOPMENT AUTHORITIES TO PAY PREFLOOD VALUE FOR FLOOD DAMAGED HOMES ACQUIRED FOR FEDERALLY FINANCED URBAN RENEWAL PROJECTS. HOWEVER, AS A POLICY MATTER, WE QUESTION WHETHER THE FEDERAL GOVERNMENT SHOULD FUND THE PAYMENT OF PREFLOOD VALUE FOR PROPERTY ACQUIRED FOR URBAN RENEWAL PROJECTS.

WE QUESTION WHETHER A STATE SHOULD BE PERMITTED TO USE URBAN RENEWAL FUNDS TO AUGMENT FUNDS NORMALLY AVAILABLE TO INDIVIDUAL DISASTER VICTIMS. IN THIS CONNECTION, OTHER DISASTER VICTIMS IN THE PENNSYLVANIA PROJECT AREAS WHOSE HOMES OR BUSINESSES WERE DAMAGED, BUT WHOSE PROPERTIES ARE NOT ACQUIRED FOR URBAN RENEWAL, WILL NOT RECEIVE PREFLOOD VALUE FOR THEIR PROPERTIES AND WILL HAVE TO FINANCE REPAIRS WITH AN SBA LOAN.

ALSO, VICTIMS IN OTHER STATES WHOSE PROPERTIES ARE ACQUIRED FOR DISASTER-RELATED URBAN RENEWAL PROJECTS DO NOT RECEIVE PREFLOOD VALUE. IN VIEW OF PENNSYLVANIA'S ACTION IN AMENDING ITS EMINENT DOMAIN CODE SO THAT PREFLOOD VALUE PAYMENTS WERE APPLICABLE TO PROPERTIES DAMAGED IN EARLIER FLOODS, IT IS POSSIBLE THAT OTHER STATES MAY AMEND THEIR LAWS TO SIMILARLY ALLOW PAYMENT OF PREFLOOD VALUE FOR REAL PROPERTY ACQUIRED FOR FEDERALLY FINANCED DISASTER-RELATED URBAN RENEWAL PROJECTS.

MR. CHAIRMAN, WE WOULD BE HAPPY TO HAVE KNOWLEDGABLE MEMBERS OF OUR STAFF CONSULT WITH THE STAFF OF THE SUBCOMMITTEE ON THE PROBLEMS DISCUSSED IN OUR REPORTS OR ASSIST IN ANY OTHER WAY WE CAN.

THIS CONCLUDES OUR PREPARED STATEMENT, MR. CHAIRMAN. WE WILL TRY TO RESPOND TO ANY QUESTIONS THAT YOU MAY HAVE.